

**REPORT OF THE AUDITOR-GENERAL TO THE NORTERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON UMSOBOMVU LOCAL MUNICIPALITY
REPORT ON THE FINANCIAL STATEMENTS**

Introduction

1. I have audited the financial statements of the Umsobomvu Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2014, the statement of financial performance, statement of changes in net assets, cash flow statement for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2013 (Act No. 2 of 2013) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umsobomvu Local Municipality as at 30 June 2014, and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Irregular Expenditure

8. Irregular expenditure of R3 472 499 (2013: R2 903 885) incurred during 2013-14 was disclosed in note 39.3 to the financial statements. This irregular expenditure is still being investigated and will be addressed at the next council meeting.

Material losses and Impairment

9. As disclosed in note 29 to the financial statements, material impairment to the amount of R8 606 162 (2013: R6 884 880) was incurred as a result of impairment of trade debtors.
10. As disclosed in note 32.1 to the financial statements, material losses to the amount of R7 051 054 (R 5 652 231) was incurred as a result of Electricity and Water Losses incurred in the general management of the municipality

Restatement of corresponding figures

11. As disclosed in note 33 to the financial statements the corresponding figures for 30 June 2013 have been restated as a result of an error discovered during 2013 in the financial statements relating to various financial statement line items.

Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited supplementary schedules

13. The supplementary information set out on appendices A to H does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the PAA and the General Notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

15. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2014:
 - Public works: Chapter 3 of Annual Report: Page 57
 - Water: Chapter 3 of Annual Report: Page 57
 - Sewage: Chapter 3 of Annual Report: Page 57
 - Electricity: Chapter 3 of Annual Report: Page 57
16. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
17. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I

further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).

18. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. The material findings in respect of the selected objectives are as follows:

Public works

Consistency of objectives and targets

20. The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported targets are not consistent with the targets as per the approved integrated development plan. This is due to the lack of review and monitoring of the completeness of reporting documents by management.

Measurability of targets

21. The National Treasury Framework for managing programme performance information (FMPPI) requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Reliability of reported performance information

22. The National Treasury Framework for managing programme performance information (FMPPI) requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.
23. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to water, could be material but not pervasive.

Water

Consistency of objectives and targets

24. The Municipal Systems Act, section 41(c) requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 100% of the reported targets are not consistent with the targets as per the approved integrated development plan. This is due to the lack of review and monitoring of the completeness of reporting documents by management.

Measurability of targets

25. The National Treasury Framework for managing programme performance information (FMPPI) requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Reliability of reported performance information

26. The National Treasury Framework for managing programme performance information (FMPPPI) requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.
27. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to water, could be material but not pervasive.

Sewerage

Reliability of reported performance information

28. The National Treasury Framework for managing programme performance information (FMPPPI) requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.
29. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to water, could be material but not pervasive.

Electricity

Reliability of reported performance information

30. The National Treasury Framework for managing programme performance information (FMPPPI) requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.
31. I was unable to obtain the information and explanations I considered necessary to satisfy myself as to the reliability of information presented with respect to water, could be material but not pervasive.

Additional matters

32. I draw attention to the following matter:

Achievement of planned targets

33. Refer to the annual performance report for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs 20 to 32 of this report.

Compliance with legislation

34. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA are as follows:

Procurement

35. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by SCM regulation 17(a)
36. Bid specifications for procurement of goods and services through competitive bids were drafted in a biased manner that did not allow all potential suppliers to offer their goods or services, in contravention of SCM regulation 27(2)(a).
37. Invitations for competitive bidding were not advertised for a required minimum period as required by Supply Chain Management regulation 22(1) & 22(2).
38. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1)
39. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding and quotations, as required by SCM Regulations 21(b) and 28(1)(a) and Preferential Procurement Regulations.
40. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations
41. Sufficient appropriate audit evidence could not be obtained that contracts and quotations were awarded to bidders that scored the highest points in the evaluation process, as required by of section 2(1)(f) of Preferential Procurement Policy Framework Act

Predetermined objectives

42. The municipality did not conduct its affairs in a manner which was consistent with its integrated development plan and the annual budget is not aligned to the integrated development plan of the municipality.
43. Key performance indicators, including input, output and outcome indicators, in respect of each of the development priorities and objectives were not set out in the IDP, as required by section 41(1)(a) of the MSA and the Municipal planning and performance management regulation 1 and 9(1)(a).
44. The annual performance agreements for the municipal manager and all senior managers are not linked to the measurable performance objectives approved with the budget and to the service delivery budget implementation plan as required in terms of section 53(1)(c)(iii) of the MFMA and section 57(1)(b) of the MSA.
45. The accounting officer did not assess the first half of the financial year performance of the municipality by 25 January 2014.
46. The annual report for the year under review does not include particulars of any corrective action taken or to be taken in response to issues raised in the audit report, as required by section 121 (3) (g) of the Municipal Finance Management Act.

Expenditure Management

47. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) and 95(d) of the Municipal Finance Management Act

Internal control

48. I considered internal control relevant to my audit of the financial statements, annual

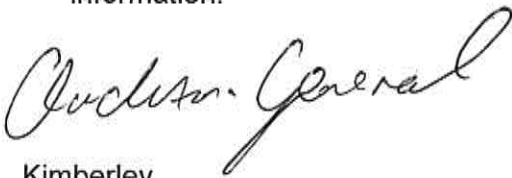
performance report and compliance with legislation. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

- 49. Management did not exercise adequate oversight responsibility regarding performance reporting, compliance and related internal controls.
- 50. Management has failed to implement adequate controls to ensure goods and services are procured in accordance with the minimum requirements as set out by the supply chain management regulations. This puts the municipality at an increased risk with regards to fraud.

Financial and performance management

- 51. There are deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations collation and reporting of performance information.



Kimberley

30 November 2014



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence